

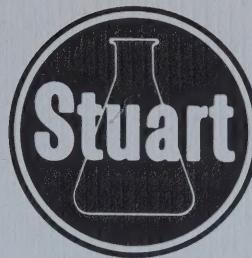
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D. A. STUART OIL CO., LIMITED

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1977 Annual Report





D.A. STUART OIL CO., LIMITED

DIRECTORS and OFFICERS

Directors

LUTHER P. BEGLEY
M. BRUCE DEANS
DANIEL GIANNINI, M.B.E.
DAVID I. JOHNSTON
CHRIS. T. LOUGHIN
STEPHEN P. OGRYZLO, Ph.D.
JOHN C. STRADWICK, Sr.
HERIBERT WERHAHN

Honorary Directors

M. CLIFFORD DEANS
GORDON McMILLAN, Q.C.

Officers of the Company

Chairman of the Board and Chief Executive Officer
DANIEL GIANNINI, M.B.E.

President
DAVID I. JOHNSTON

Executive Vice-President and General Manager
LUTHER P. BEGLEY

Vice-President – Finance
DOUGLAS F. HASLAM

Vice-President – Manufacturing
ROBERT F. GASVODA

Treasurer and Assistant Secretary
HENRY E. PERKINS

Secretary and Assistant Treasurer
HERBERT W. SALTHOUSE

Transfer Agents and Registrars

NATIONAL TRUST COMPANY, LIMITED
21 King Street East
Toronto, Ontario, M5C 1B3
D. A. STUART OIL CO., LIMITED
2727 South Troy Street
Chicago, Illinois 60623

General Office:

2727 South Troy Street
Chicago, Illinois 60623

Head Office:

Suite 1105, 65 Queen Street West
Toronto, Ontario, Canada M5H 2M5

The Annual Meeting of Shareholders will be held in the Library of The Royal York Hotel, Toronto, Canada, on Friday, September 30, 1977, at 11 A.M. Toronto Time.

D. A. STUART OIL CO., LIMITED

Serving the metal working industry for over 100 years

Report of the Directors

TO THE SHAREHOLDERS:

Consolidated sales amounted to U.S.\$18,876,288 compared to U.S.\$16,070,630 for the previous year. Despite the higher sales, continued rising costs of raw materials, energy, labour and transportation affected our income in the most important market, United States.

Net earnings for the year under review amounted to U.S.\$769,484 as against U.S.\$839,238 last year, equivalent per share to \$1.69 and \$1.84 respectively.

Canadian D. A. Stuart Oil Co. Limited and D. A. Stuart Oil Co. Limited in the United Kingdom, both wholly owned subsidiaries, had record sales last year and the Canadian company also had a record profit. The earnings level in the U.K. company was the highest in recent years. Through the devaluation of the Canadian dollar and the pound sterling in relation to the United States dollar, there was a foreign exchange loss on translation of the currencies into U.S. dollars.

Your Company's 50% owned subsidiary, D. A. Stuart Oil GmbH showed an improvement to the point where a break-even year was reached.

Your Company's licensee arrangements continue to operate on a satisfactory basis.

In order to achieve a more efficient and profitable level of operation, the Company will make efforts to improve finance and management controls. It is also the intention of management to seek out an enterprise that can be acquired to broaden the activities of your Company in its traditional fields of interest. The Company has established new policies with respect to research and development which will result in greater expenditures and greater benefits in that area in future years.



During the fiscal year quarterly dividends aggregating 80 cents and extra dividends of 16.4 cents were paid per share. The dividends were paid in Canadian funds.

On January 25, 1977, Mr. Heribert Werhahn and Mr. David Johnston joined the Board of Directors of the Company to replace Mr. Herbert Salthouse and Mr. Robert Gasvoda who resigned as directors. Mr. Johnston was also appointed President of the Company and Mr. Douglas F. Haslam was appointed Vice-President, Finance.

Mr. John C. Stradwick, Sr. has indicated his intention not to stand for re-election at the next Annual Meeting and it is proposed that he be replaced by Dr. Peter H. Werhahn. The Company wishes to record its appreciation for the years of service which Mr. Stradwick has devoted to its affairs as a director of the Company and to the contribution and guidance which he offered in some of the more difficult years which are now passed.

Management is confident that during the present fiscal year results will be improved over those of last year.

The excellent cooperation of all employees and their continued loyalty is sincerely appreciated by the management and directors.

On behalf of the Board

DANIEL GIANNINI
Chairman of the Board

Toronto, Canada
July 22, 1977

DAVID I. JOHNSTON
President

D. A. STUART OIL CO., LIMITED

(Incorporated under the laws of Ontario)

Consolidated Balance

Expressed in United

ASSETS**Current Assets**

	1977	1976
Cash and deposit receipts	\$ 810,152	\$ 716,389
Accounts receivable	2,786,558	2,103,524
Inventories	2,490,736	2,221,353
Drums, other containers and supplies	148,016	125,396
Advances and prepaid expenses	137,008	142,416
	6,372,470	5,309,078

Marketable Securities, at cost (quoted market value, 1977, \$12,760; 1976, \$11,604)

34,308 34,308

Other Investments (note 2)

53,615 60,204

Life Insurance, cash surrender value

66,113 62,889

Fixed Assets, at cost (note 3)

Land, buildings and equipment	3,734,138	3,522,541
Less accumulated depreciation	2,207,539	2,094,655
	1,526,599	1,427,886
	\$8,053,105	\$6,894,365

Approved by the Board

D. GIANNINI, Director

D. I. JOHNSTON, Director

AUDITORSTo the Shareholders of
D. A. Stuart Oil Co., Limited

We have examined the consolidated balance sheet of D. A. Stuart Oil Co., Limited as at May 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Canada
July 8, 1977



Sheet as at May 31, 1977

ates currency

LIABILITIES

Current Liabilities

	1977	1976
Bank advances	\$ 250,000	\$ 31,985
Accounts payable and accrued liabilities	1,756,659	1,299,866
Income taxes payable	199,673	93,569
Other taxes payable	96,924	74,757
Dividend payable	86,853	93,304
Liability for returnable containers	<u>108,359</u>	70,714
	<u>2,498,468</u>	1,664,195
Deferred Income taxes	<u>173,051</u>	180,480

SHAREHOLDERS' EQUITY

Capital Stock

Authorized – 800,000 common shares of no par value		
Issued – 456,256 shares	424,608	424,608

Retained Earnings (note 4)	4,956,978	4,625,082
	<u>5,381,586</u>	<u>5,049,690</u>
	<u>\$8,053,105</u>	<u>\$6,894,365</u>

Contingent liability (note 6)

EPORT

In our opinion, these consolidated financial statements present fairly the financial position of the company as at May 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants

D. A. STUART OIL CO., LIMITED

CONSOLIDATED STATEMENT OF INCOME Year Ended May 31, 1977

Expressed in United States currency

	1977	1976
Sales	<u>\$18,876,288</u>	<u>\$16,070,630</u>
Cost of sales	<u>14,310,920</u>	<u>12,023,397</u>
Gross margin	<u>4,565,368</u>	<u>4,047,233</u>
Royalties and other income	<u>315,209</u>	<u>341,513</u>
Income before undernoted items	<u>4,880,577</u>	<u>4,388,746</u>
Selling and administrative expenses	<u>3,259,386</u>	<u>2,773,655</u>
Loss on foreign currency	<u>79,825</u>	<u>88,182</u>
	<u>3,339,211</u>	<u>2,861,837</u>
	<u>1,541,366</u>	<u>1,526,909</u>
Allowance for share of loss of 50% owned company		26,500
Income before income taxes	<u>1,541,366</u>	<u>1,500,409</u>
Income taxes		
Current	<u>779,311</u>	629,545
Deferred (reduction)	<u>(7,429)</u>	31,626
	<u>771,882</u>	661,171
Net Income	<u>\$ 769,484</u>	<u>\$ 839,238</u>
Earnings per Share	<u>\$ 1.69</u>	<u>\$ 1.84</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended May 31, 1977

Expressed in United States currency

	1977	1976
Balance at Beginning of Year	<u>\$ 4,625,082</u>	<u>\$ 4,170,870</u>
Net income	<u>769,484</u>	<u>839,238</u>
	<u>5,394,566</u>	<u>5,010,108</u>
Dividends*	<u>437,588</u>	<u>385,026</u>
Balance at End of Year	<u>\$ 4,956,978</u>	<u>\$ 4,625,082</u>

* Dividends were declared in Canadian funds 1977, 96.4¢ per share and 1976, 85¢ per share.
Amounts shown above are stated in U.S. funds.



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year Ended May 31, 1977

Expressed in United States currency

	<u>1977</u>	<u>1976</u>
Working capital derived from		
Operations		
Net income	\$ 769,484	\$ 839,238
Items not involving working capital		
Depreciation	138,676	138,044
Loss (gain) on disposal of fixed assets	(4,219)	519
Deferred income taxes (reduction)	(7,429)	31,626
Allowance for share of loss of 50% owned company	26,500	
	<u>896,512</u>	1,035,927
Decrease in advances to other companies	3,136	
Sale of fixed assets	12,873	2,145
Reclassification of current income taxes payable as deferred		93,120
Decrease in investment in and advances to 50% owned company	3,453	
	<u>915,974</u>	1,131,192
Working capital applied to		
Dividends	437,588	385,026
Additions to fixed assets	246,043	173,142
Increase in investment in and advances to 50% owned company		10,324
Increase in advances to other company		11,980
Life insurance, cash surrender value	3,224	7,099
	<u>686,855</u>	587,571
Increase in working capital	229,119	543,621
Working capital at beginning of year	3,644,883	3,101,262
Working capital at end of year	<u>\$3,874,002</u>	<u>\$3,644,883</u>

D. A. STUART OIL CO., LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Year Ended May 31, 1977

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary companies Canadian D. A. Stuart Oil Co. Limited and D. A. Stuart Oil Co. Limited (English subsidiary).

(b) Basis of translation

The company operates principally in the United States and the accompanying financial statements are expressed in United States currency. Assets, liabilities, and revenues and expenses maintained in other than U.S. currency have been translated to United States dollars at the following rates of exchange:

(i) Current assets and liabilities, at exchange rates prevailing at the year end.

(ii) Fixed assets, capital stock and earnings accumulated prior to June 1, 1964 on the basis of U.S. \$1 = Canadian \$1 and U.S. \$2.80 = £1.

(iii) Income, expenses and changes in non-current assets and liabilities at average rates in effect annually during the years since June 1, 1964.

(iv) Gains or losses on translation of foreign currency are recognized during the year in the statement of income.

(c) Inventories

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

(d) Fixed assets

All fixed assets are recorded in the accounts at cost.

Depreciation is recorded principally on a straight-line basis to amortize the cost of depreciable fixed assets over their estimated useful life. The rates range from 2½% on buildings to 25% on certain automotive equipment.

(e) Investments

The company accounts for its 50% investment in D. A. Stuart Oil GmbH at cost less allowance for share of losses. Marketable securities are held for long term investment purposes and are carried at cost.

(f) Income taxes

The company charges income with income taxes currently payable and also with income taxes deferred by claiming certain costs for income tax purposes in excess of related costs charged to income. The accumulated total of such income tax deferments is reflected in the consolidated balance sheet as "Deferred income taxes".

2. OTHER INVESTMENTS

	1977	1976
Investment in and advances to 50% owned company		
Shares, at cost	\$ 65,495	\$ 65,495
Advances	<u>75,949</u>	<u>79,402</u>
	141,444	144,897
Allowance for share of losses of 50% owned company	98,606	98,606
	<u>42,838</u>	<u>46,291</u>
Advances to other company	10,777	13,913
	<u>\$ 53,615</u>	<u>\$ 60,204</u>

3. FIXED ASSETS

	1977	1976		
	Asset value	Accumulated depreciation	Net	Net
Land	\$ 255,202	\$ 255,202	\$ 255,202	\$ 255,202
Buildings and railway sidings	1,341,519	562,318	779,201	781,585
Factory equipment	1,705,346	1,283,191	422,155	324,637
Office and laboratory equipment	339,489	288,174	51,315	35,376
Automotive equipment	92,582	73,856	18,726	31,086
	<u>\$3,734,138</u>	<u>\$2,207,539</u>	<u>\$1,526,599</u>	<u>\$1,427,886</u>



4. RETAINED EARNINGS

Dividends from the English subsidiary are subject to exchange control authorization, which is usually granted, and withholding taxes at time of payment.

5. OTHER STATUTORY INFORMATION

	1977	1976
Depreciation	\$ 138,676	\$ 138,044
Remuneration of directors and senior officers (as defined by The Business Corporations Act)		
Directors and officers	\$ 191,571	\$ 232,265
Other employees	197,793	96,039
	<u>\$ 389,364</u>	<u>\$ 328,304</u>

6. CONTINGENT LIABILITY

The company has provided guarantees to a maximum of \$508,900 for bank loans and long term mortgage loans of the 50% owned company, D. A. Stuart Oil GmbH. As at May 31, 1977 the loans amounted to \$454,500. Of the guarantees provided on behalf of the 50% owned company by D. A. Stuart, \$127,200 has been guaranteed to Stuart by the owner of the other 50% of the company.

7. PENSION PLAN

Current pension costs are charged to operations each year. Past service costs are being amortized over thirty years.

At May 31, 1977, based upon an actuarial valuation conducted as of April 30, 1976 the computed present value of the company obligations for unfunded past service costs approximated \$427,156 after deducting \$28,309 charged to operations for the year.

8. ANTI-INFLATION PROGRAMME

The company is subject to the mandatory guidelines under the Federal anti-inflation legislation enacted effective October 14, 1975 with respect to dividends.

FIVE-YEAR COMPARATIVE REVIEW OF OPERATIONS

	Sales	Income before income taxes	Income taxes	Net income	Dividends declared	Income retained
1977	\$18,876,288	\$1,541,366	\$771,882	\$769,484	\$437,588	\$331,896
1976	16,070,630	1,500,409	661,171	839,238	385,026	454,212
1975	16,779,499	1,808,957 (2)	915,071	893,886	391,114	502,772
1974	14,386,856	1,510,132 (2)	798,603	711,529	161,367	550,162
1973	13,263,875	904,111 (1)	579,909	324,202	92,118	232,084

(1) After reduction for extraordinary item of \$26,380 in 1973.

(2) After reduction for loss on discontinued operations of \$23,368 in 1975; \$56,588 in 1974 and gain on sale of shares of Argentinian subsidiaries of \$53,232 in 1975.

UNITED STATES AND INTERNATIONAL OPERATIONS



1

INTERNATIONAL

ARGENTINA, Buenos Aires
D. A. Stuart Oil Co. (Arg.) S.A.I.C.

BELGIUM, Brussels

Ets. Marcel Ponjaert S.P.R.L.

ENGLAND, Wolverhampton

D. A. Stuart Oil Co. Limited

GERMANY, Langenselbold

D. A. Stuart Oil GmbH

ITALY, Milan

Stuart Oil Italiana S.p.A.

JAPAN, Tokyo

Takata & Co. Ltd.

SOUTH AFRICA

Lasatech (Proprietary) Ltd.

Johannesburg

SWEDEN, Goteborg

D. A. Stuart Oil Nordiska AB

2

DISTRIBUTORS

ATLANTA, Ga.
Cowan Supply Company

BIRMINGHAM 2, Ala.
Young & Vann Supply

DENVER, Colo.
Union Supply Co.

GREENVILLE, Miss.

KANSAS CITY, Mo.

Dens-Oil Lubricant Company

MINNEAPOLIS, Minn.

The Satterlee Company

OKLAHOMA CITY, Okla.

Hart Industrial Supply

PORTLAND, Maine

Loren Dyer Co., Inc.

PORTLAND, Oregon

Davis Industrial Products

SAN MATEO, California

Bay City Oil Company

SEATTLE, Washington

Seaport Supply Company

TAMPA, Florida

Tool & Die Supply Company

TULSA, Oklahoma

Krisman Industrial Supply

3

MANUFACTURING

CHICAGO, Illinois

D. A. Stuart Oil Co., Limited

INDIANAPOLIS, Indiana

D. A. Stuart Oil Co., Limited

NORTHVILLE, Michigan

D. A. Stuart Oil Co., Limited

SOMERVILLE, New Jersey

D. A. Stuart Oil Co., Limited

SCARBOROUGH, Ontario, Canada

Canadian D. A. Stuart Oil Co., Limited

ARGENTINA, Buenos Aires

D. A. Stuart Oil Co. (Arg.) S.A.I.C.

ENGLAND, Wolverhampton

D. A. Stuart Oil Co., Limited

GERMANY, Langenselbold

D. A. Stuart Oil GmbH

4

WAREHOUSES

DALLAS, Texas

Blue Chip Delivery, Inc.

DAYTON, Ohio

Lewis & Michael Inc.

HOUSTON, Texas

Palmer Whse. & Trans. Co.

INDIANAPOLIS, Indiana

Merchandise Warehouse Company

SYRACUSE, New York

Robert M. Haley Warehouse

5

BLENDING & SERVICE CENTRES

BROOK PARK, Ohio

CHICAGO, Illinois

INDIANAPOLIS, Indiana

LIVONIA, Michigan

LOS ANGELES, California

NORTHVILLE, Michigan

SOMERVILLE, New Jersey

SOUTH WINDSOR, Connecticut



6
**EUROPEAN
DISTRIBUTORS**

AUSTRIA. Vienna
A. Johnson & Co.
BELGIUM. Brussels
Ets. Marcel Ponjaert S.P.R.L.
FINLAND. Helsinki
Oy Teknoma, AB
FRANCE. Paris
A. Johnson & Cie
ITALY. Milan
Stuart Oil Italiana S.p.A.
NORWAY.
Avimar A/S
PORTUGAL. Lisbon
SIOL
SPAIN. Madrid
MecanOil, S.A.
SWEDEN. Goteborg
D. A. Stuart Oil Nordiska AB
SWITZERLAND. Bern
Miltolf AG
YUGOSLAVIA. Krusevac
Fabrica Ulja i Maziva



